2019 Inspection PricewaterhouseCoopers LLP

(Headquartered in New York, New York)

December 17, 2020

PCAOB
Public Company Accounting Oversight Board

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) and 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2021-005A
(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2021-005)

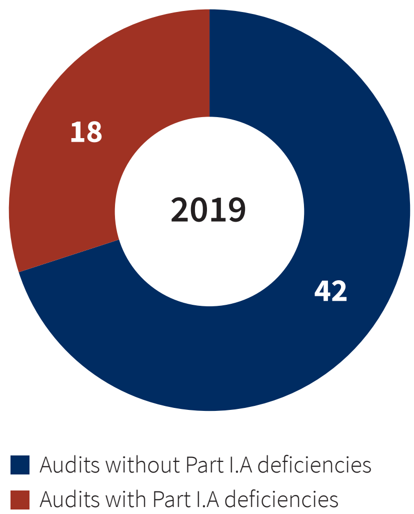
Executive Summary

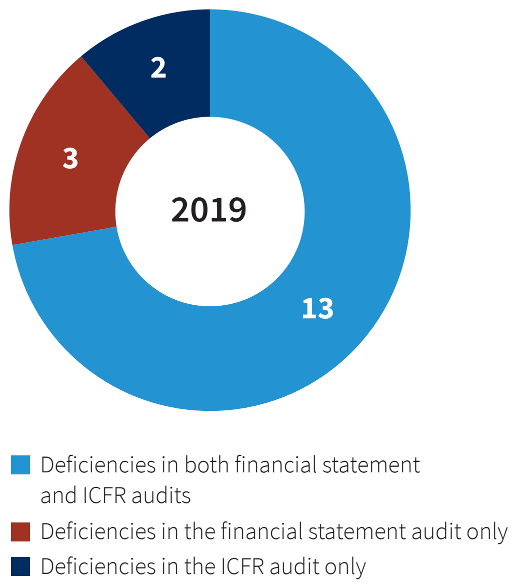
Our 2019 inspection report on PricewaterhouseCoopers LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board ("PCAOB") standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of: (1) Part I.A of the report, which discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or internal control over financial reporting ("ICFR"), and (2) Part I.B of the report, which discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

The fact that we have included a deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If a deficiency is included in Part I.A or Part I.B of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2019 Deficiencies Included in Part I

Eighteen of the 60 issuer audits we reviewed in 2019 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue and related accounts, income taxes, the allowance for loan losses, investment securities, and inventory.





The most common Part I.A deficiencies in 2019 related to identifying controls related to a significant account or relevant assertion, testing the design or operating effectiveness of controls selected for testing, testing controls over the accuracy and completeness of data or reports used in the operation of controls, and performing substantive testing to address a risk of material misstatement.

Other deficiencies identified during the 2019 inspection that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appear in Part I.B, related to audit committee communications and Form AP.

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2019 Inspection

During the PCAOB's 2019 inspection of PricewaterhouseCoopers LLP, we assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 60 audits of issuers with fiscal years generally ending in 2018. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2019 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - o Part I.A: Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR.
  - o Part I.B: Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Sarbanes-Oxley Act ("the Act") restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2019 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make most selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. We also select audits randomly to provide an element of unpredictability. In 2019, we established a target team to perform inspection procedures in areas of current audit risk and emerging topics. For our target team selections, our review focuses primarily on evaluating the firm's procedures related to that risk or topic.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

In 2019, our target team reviews focused, in part, on planning and execution of multi-location audits, including risk assessment, principal auditor considerations, and communications between the principal auditor and the other auditor. We also evaluated the firm's determination and communication of critical audit matters ("CAM"), in particular to understand the policies and procedures firms put in place to support and monitor the effective implementation of CAM requirements and how audit teams implemented CAM requirements.[1]

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

[1] Refer to Staff Update and Preview of 2019 Inspection Observations and Critical Audit Matters Spotlight for observations from the target team reviews. Instances of non-compliance with PCAOB standards and rules identified during the target team reviews are included in Part I.A or Part I.B of this report.

Overview of the 2019 Inspection and Historical Data by Inspection Year

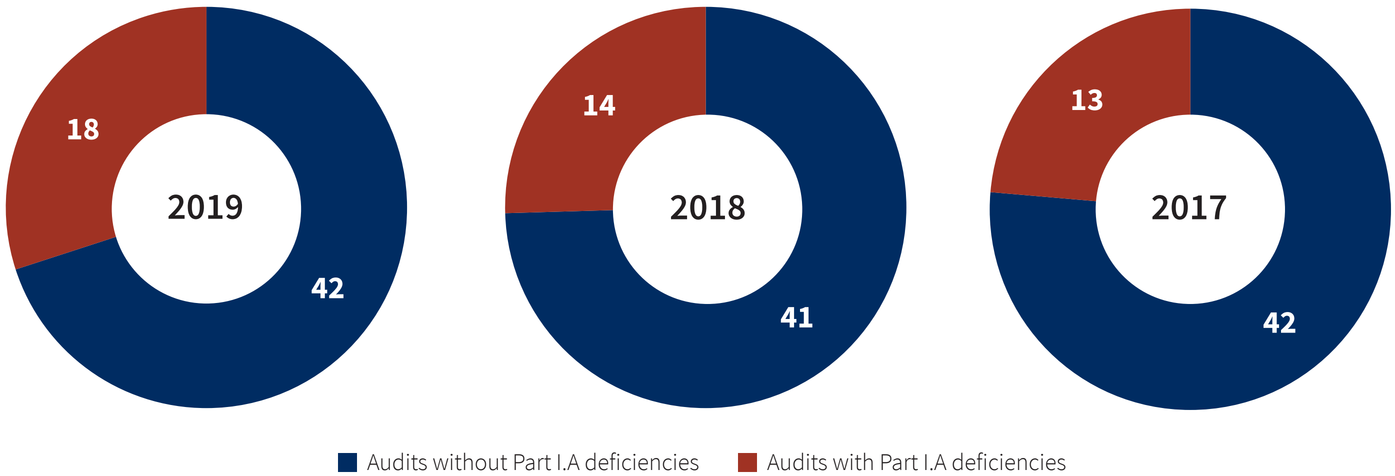
The following information provides an overview of our 2019 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

Audits Reviewed

	2019	2018	2017
Total audits reviewed	60	55	55
Audits in which the firm was the principal auditor	58	54	54
Audits in which the firm was not the principal auditor	2	1	1
Integrated audits of financial statements and ICFR	52	45	49
Risk-based selections	41	45	45
Random selections	14	10	10
Target team selections	5	0	0

Part I.A Deficiencies in Audits Reviewed

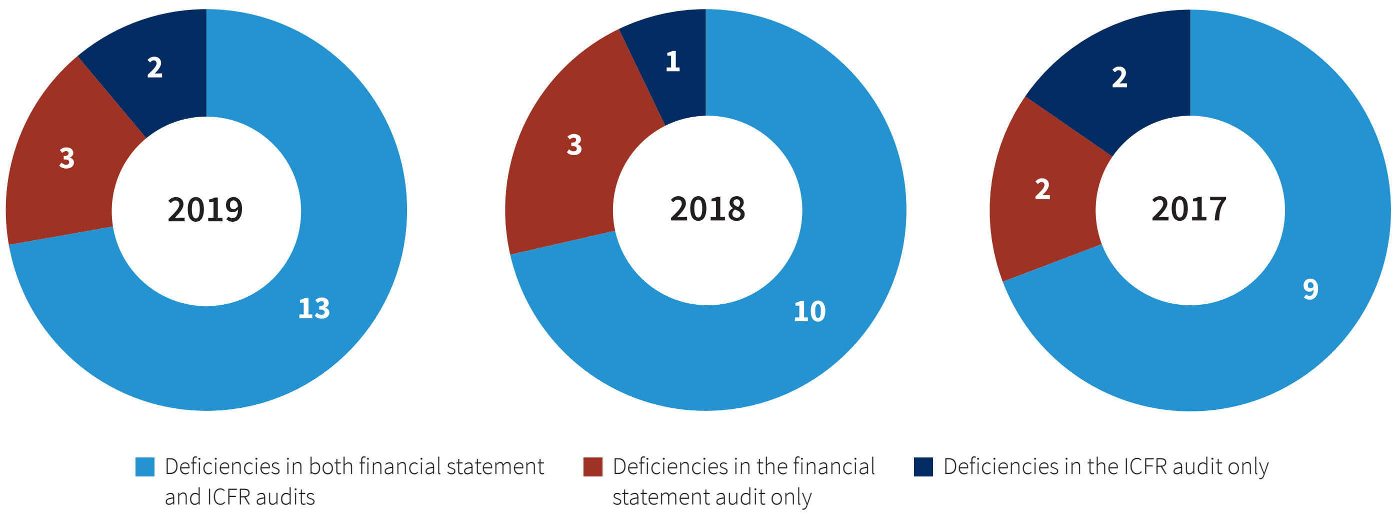
In 2019, 13 of the 18 audits appearing in Part I.A were selected for review using risk-based criteria. In 2018, 11 of the 14 audits appearing in Part I.A were selected for review using risk-based criteria. In 2017, 11 of the 13 audits appearing in Part I.A were selected for review using risk-based criteria.



If a deficiency is included in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports. Our inspection normally includes a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audits Affected by the Deficiencies Identified in Part I.A



In connection with our 2019 inspection procedures for three audits, the issuers revised their reports on ICFR, and the firm modified its opinions on the effectiveness of the issuers' ICFR to express adverse opinions and reissued its reports. In addition, in connection with our 2019 inspection procedures for one audit, the issuer restated its financial statements, and the firm revised and reissued its report. In connection with our 2018 inspection procedures for one audit, the issuer revised its report on ICFR and disclosed that the firm's opinion related to the effectiveness of the issuer's ICFR should no longer be relied upon. In connection with our 2017 inspection procedures for two audits, the issuers revised their reports on ICFR, and the firm modified its opinions on the effectiveness of the issuers' ICFR to express adverse opinions and reissued its reports.

The following tables and graphs summarize inspection-related information, by inspection year, for 2019 and the previous two inspections. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2019	2018	2017
Did not perform sufficient testing related to an account or significant portion of an account or to address an identified risk	7	2	4
Did not perform substantive procedures to obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	6	4	3
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	5	7	6

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2019	2018	2017
Did not identify and test any controls related to a significant account or relevant assertion	11	5	7
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	10	8	6
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	7	3	3

Audit Areas Most Frequently Reviewed

This table reflects the five audit areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2019			2018			2017		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	47	9	**Revenue and related accounts**	46	4	**Revenue and related accounts**	49	8
Inventory	17	3	**Inventory**	16	2	**Inventory**	22	1
Business combinations	14	0	**Business combinations**	14	4	**Business combinations**	19	2
Goodwill and intangible assets	11	0	**Goodwill and intangible assets**	13	1	**Goodwill and intangible assets**	18	1
Investment securities	11	3	**Long-lived assets**	13	1	**Long-lived assets**	17	1

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2019		2018		2017	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	9	47	4	46	8	49
Income taxes	4	9	0	13	0	10
Allowance for loan losses	3	6	1	3	1	4
Investment securities	3	11	2	8	0	3
Inventory	3	17	2	16	1	22
Business combinations	0	14	4	14	2	19
Loans and related accounts	0	1	3	6	1	3

Revenue and related accounts: The deficiencies in 2019 primarily related to substantive testing of, and testing controls over, revenue. The deficiencies in 2018 and 2017 primarily related to testing controls over revenue.

Income taxes: The deficiencies in 2019 primarily related to substantive testing of, and testing controls over, income taxes.

Allowance for loan losses: The deficiencies in 2019, 2018, and 2017 primarily related to evaluating the reasonableness of the assumptions or other inputs used by the issuer to estimate the allowance for loan losses and testing controls over the issuer's review of the allowance for loan losses.

Investment securities: The deficiencies in 2019 and 2018 primarily related to testing controls over the valuation of investment securities.

Inventory: The deficiencies in 2019, 2018, and 2017 primarily related to substantive testing of, and testing controls over, the existence and valuation of inventory, including evaluating the reasonableness of the excess and obsolete inventory reserve.

Business combinations: The deficiencies in 2018 and 2017 primarily related to evaluating the reasonableness of assumptions used by the issuer to determine the fair values of assets acquired and liabilities assumed and testing controls over the issuer's review of assumptions used to value assets acquired and liabilities assumed.

Loans and related accounts: The deficiencies in 2018 and 2017 primarily related to substantive testing of loans.

Auditing Standards Associated with Identified Part I.A Deficiencies

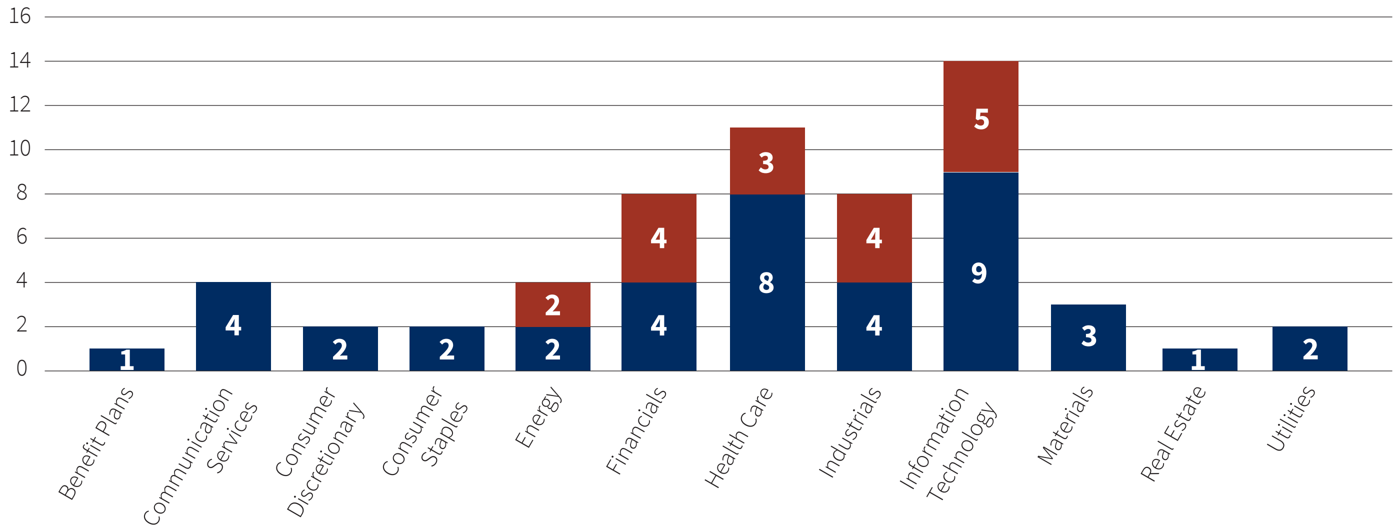
The following lists the auditing standards referenced in Part I.A of the 2019 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2019	2018	2017
AS 1105, *Audit Evidence*	2	0	1
AS 1210, *Using the Work of a Specialist*	1	0	0
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	51	25	23
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	23	6	12
AS 2305, *Substantive Analytical Procedures*	5	1	0
AS 2310, *The Confirmation Process*	1	0	0
AS 2315, *Audit Sampling*	9	5	6
AS 2501, *Auditing Accounting Estimates*	7	4	4
AS 2502, *Auditing Fair Value Measurements and Disclosures*	1	8	8
AS 2503, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*	0	0	1
AS 2605, *Consideration of the Internal Audit Function*	1	0	2
AS 2810, *Evaluating Audit Results*	6	2	3

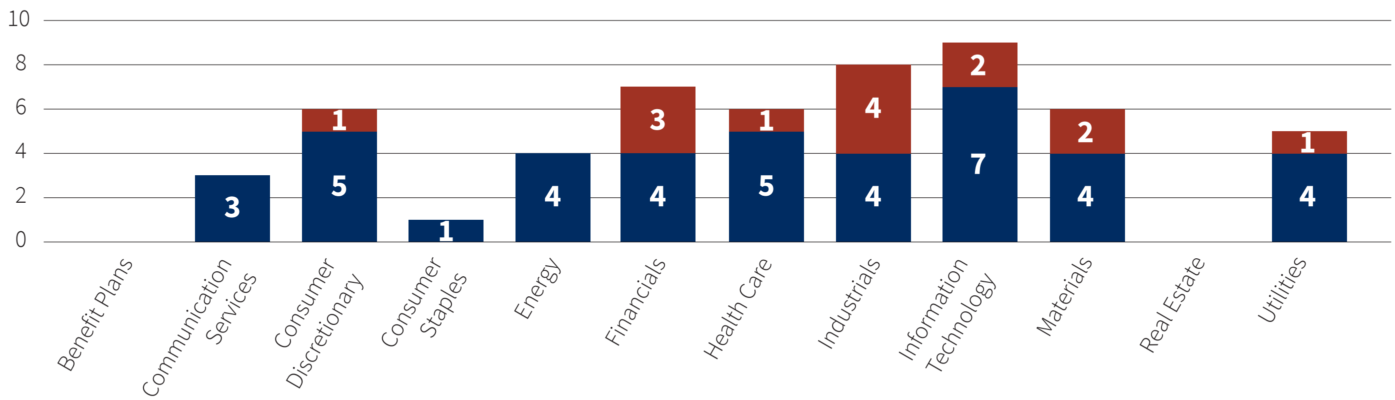
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

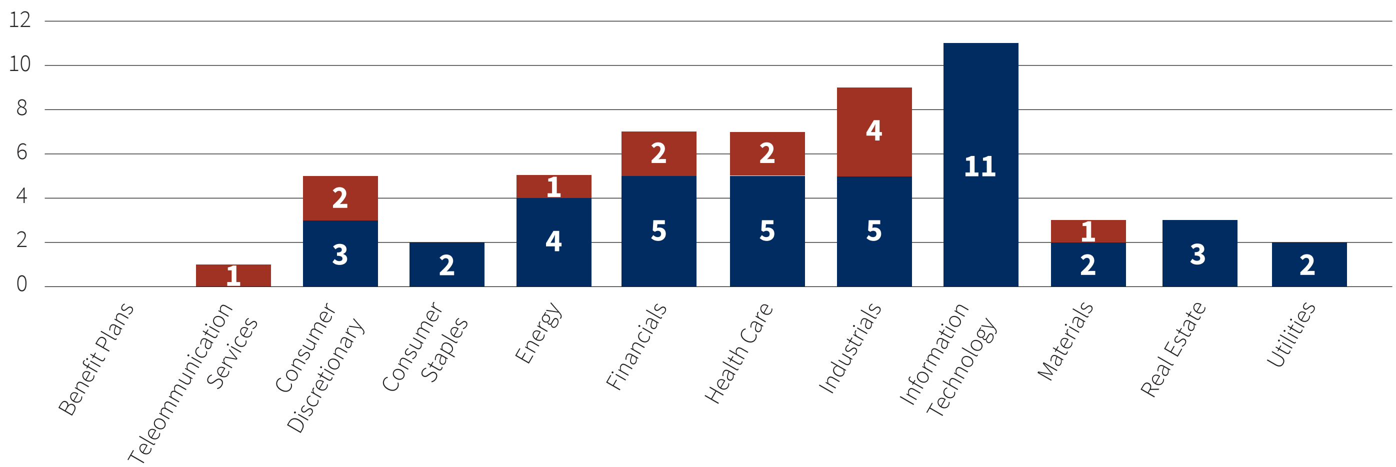
2019



2018



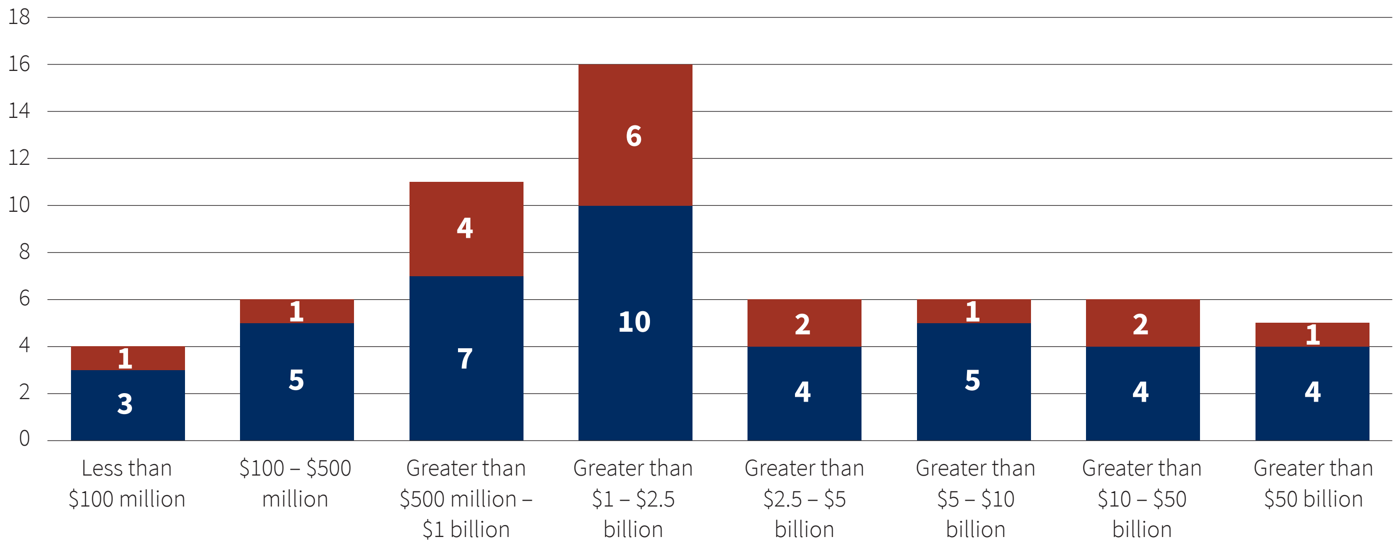
2017



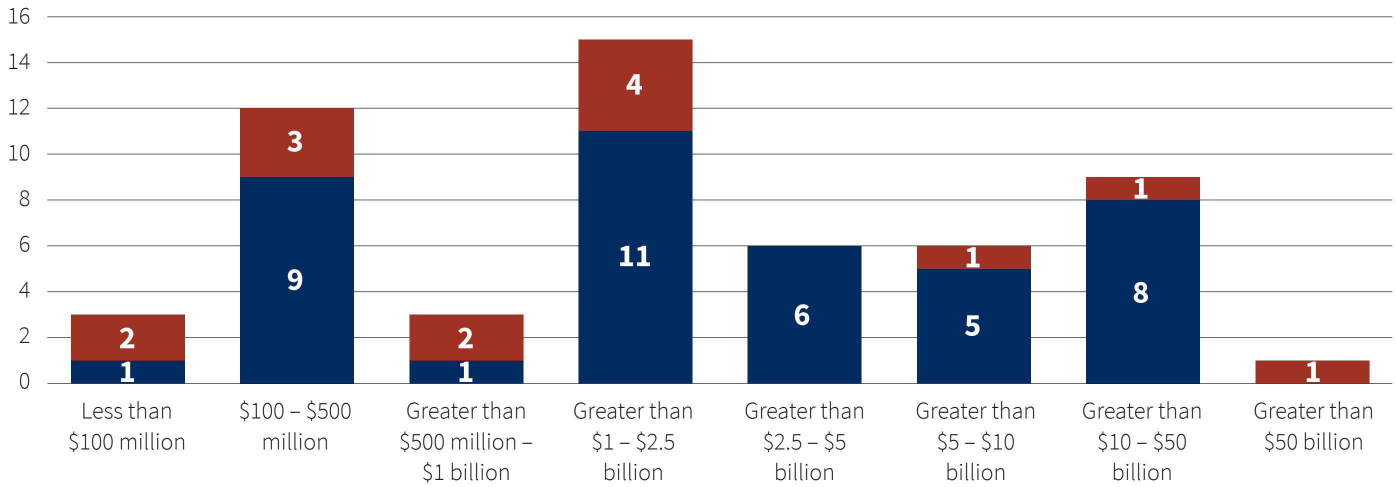
Audits without Part I.A deficiencies   Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

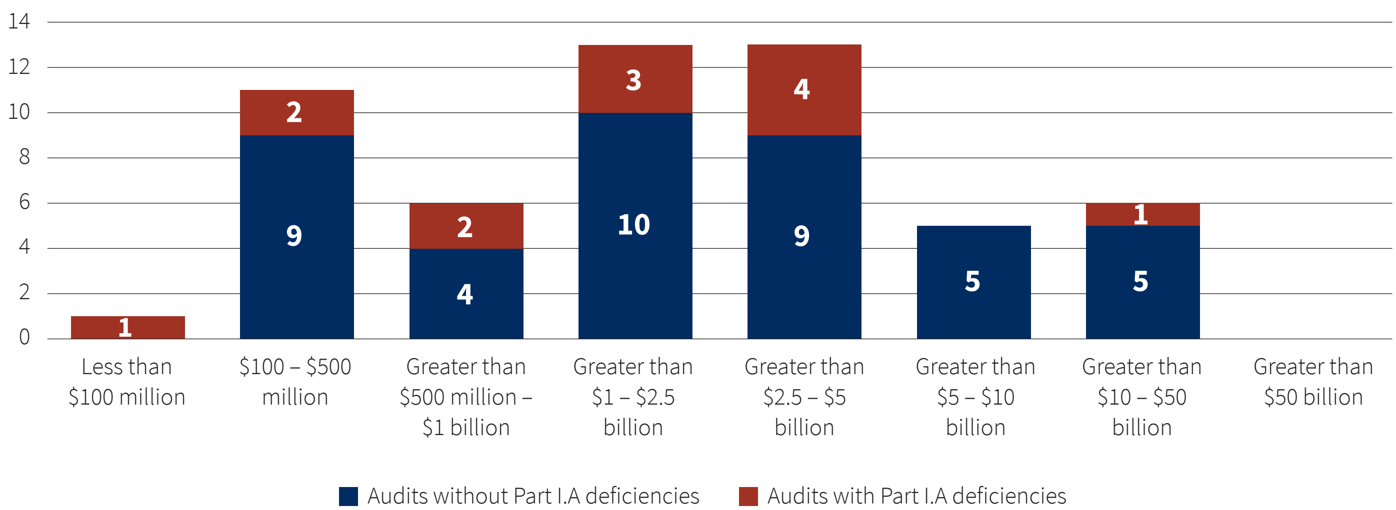
2019



2018



2017



Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or modified its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. Any deficiencies identified in connection with our reviews of these audits would be included in the audits with multiple deficiencies or audits with a single deficiency classification below.

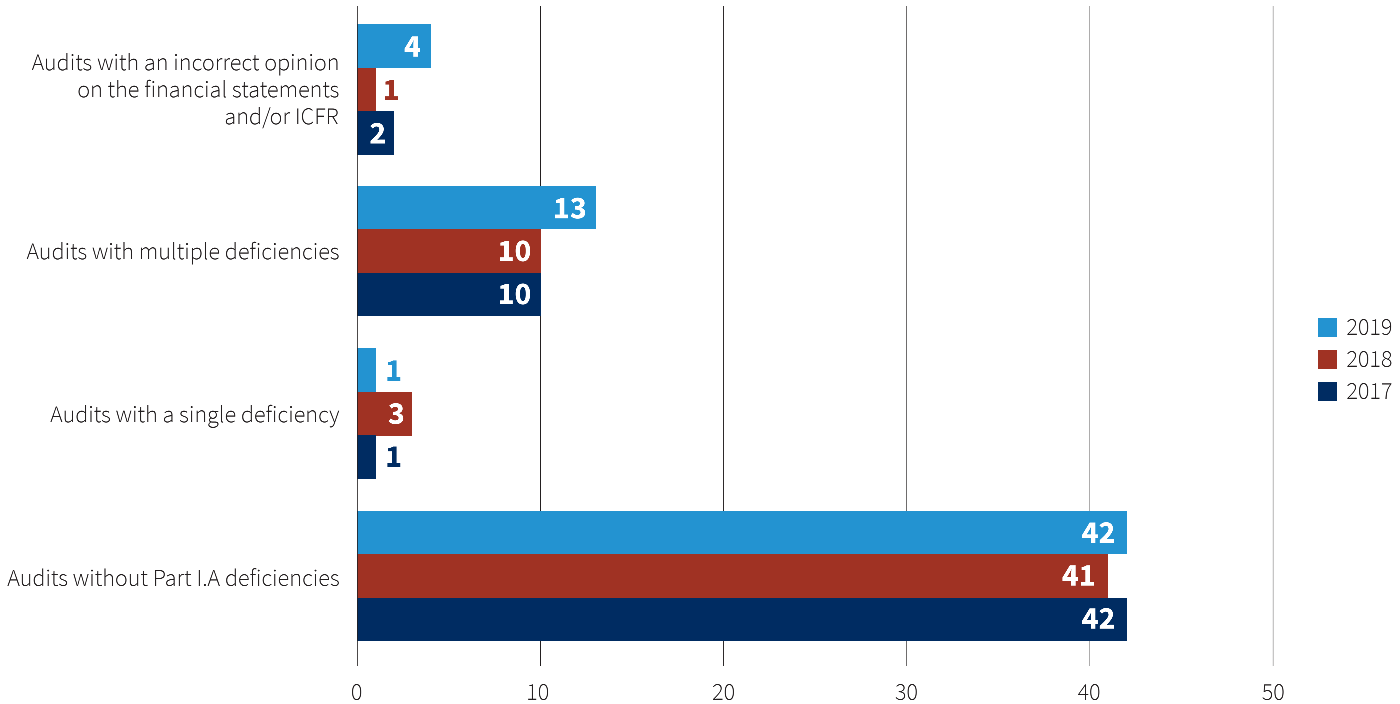
Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Number of Audits in Each Category



Part I: Inspection Observations

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR. Part I.B discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of or potential defect in the firm's quality control system. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II.

Part I.A: Audits with Unsupported Opinions

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

Issuer audits are presented below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

Issuer A – Information Technology

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Inventory**.

Description of the deficiencies identified

The issuer held certain inventory at numerous warehouses that were subject to cycle counts. The issuer's cycle-count program required this inventory to be counted at specific frequencies during the year. The following deficiencies were identified:

- The firm did not identify and test any controls that addressed whether all locations in each of these warehouses were counted during the year and whether each location was counted with sufficient frequency in accordance with the issuer's cycle-count program. (AS 2201.39) In addition, the firm did not identify and test any controls over the accuracy and completeness of the system-generated reports the issuer used in the operation of its cycle-count controls. (AS 2201.39)

  In connection with our review, the issuer reevaluated its controls over its inventory cycle-count program and concluded that a material weakness existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness and the material weakness discussed below, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

- The sample sizes the firm used in certain of its substantive procedures to test this inventory were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

The issuer used an information-technology ("IT") application to calculate its reserve for excess and obsolete ("E&O") inventory and then made manual adjustments to this calculation to determine the reserve. The following deficiencies were identified:

- The firm did not identify and test any controls over the application's calculation of the E&O reserve. (AS 2201.39)
- The firm selected for testing controls that included the issuer's reviews of the assumptions that were entered into the application and the manual adjustments that the issuer made to the calculation. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify matters for follow up and the procedures to determine whether those matters were appropriately resolved. (AS 2201.42 and .44)

  In connection with our review, the issuer reevaluated its controls over its E&O inventory reserve and concluded that a material weakness existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness and the material weakness discussed above, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.
- The sample sizes the firm used in certain of its substantive procedures to test the issuer's E&O reserve were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)
- The firm's approach for substantively testing the E&O reserve was to review and test management's process. The firm did not perform any procedures to evaluate the reasonableness of the forecasted product demand assumptions that were used to calculate the E&O reserve. (AS 2501.11)

Issuer B – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Investment Securities**, the **Allowance for Loan Losses ("ALL")**, and **Deposit Liabilities**.

Description of the deficiencies identified

With respect to **Investment Securities**:

The issuer recorded the fair values of its available-for-sale securities based on prices it obtained from an external pricing service. The firm selected for testing controls that consisted of the issuer's (1) comparison of these prices to prices obtained from other external pricing services and investigation of price variances that exceeded certain thresholds and (2) review of the categorization of the securities within the fair value hierarchy as set forth in FASB ASC Topic 820, *Fair Value Measurement*. The firm did not evaluate the specific review procedures that the control owners performed to evaluate (1) whether the fair values of the securities identified for investigation were reasonable and (2) the pricing inputs used to determine the categorization of the securities within the fair value hierarchy. (AS 2201.42 and .44) In addition, the firm did not test the aspect of one of these controls that addressed whether all of the issuer's securities were subject to this comparison. (AS 2201.42 and .44)

With respect to the **ALL**:

The firm selected for testing a control that consisted of a review of past-due loans performed by the issuer to determine whether these loans would be individually or collectively evaluated for impairment. The firm did not identify and test any controls over the accuracy and completeness of a report that was used in the operation of this control. (AS 2201.39)

To determine the qualitative reserve component of the ALL for loans that were collectively evaluated for impairment, the issuer assigned a loss factor to each loan based on certain qualitative considerations. The following deficiencies were identified:

- The firm selected for testing controls that included the issuer's reviews of the qualitative reserve component of the ALL and the corresponding loss factors. The firm did not evaluate the specific review procedures that the control owners performed to assess whether the loss factors assigned to each loan were appropriate. (AS 2201.42 and .44)

  In connection with our review, the issuer reevaluated its controls over the ALL and concluded that a material weakness existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness and the material weakness discussed below, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

- The firm did not evaluate the reasonableness of the loss factors beyond comparing the factors to those used in the prior year, inquiring of management about changes to those factors and the effects on the ALL, and recalculating the qualitative reserve component by loan type. (AS 2501.11)

With respect to **Deposit Liabilities**:

The issuer identified a control deficiency related to unauthorized access to customer accounts that resulted in two fraudulent wire-transfer requests that occurred at one of its locations. The firm did not sufficiently evaluate the severity of the control deficiency because it limited its evaluation of the magnitude of the potential misstatement to one of the fraudulent wire-transfer requests at the affected location without considering the issuer's other locations that were subject to the same controls. (AS 2201.62)

In response to this control deficiency, the issuer made changes to the design of one of its wire-transfer controls. The firm did not perform any procedures to evaluate the changes made to the design of this control. (AS 2201.68)

In connection with our review, the issuer evaluated its controls over wire transfers and concluded that a material weakness existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect this material weakness and the material weakness discussed above, and the firm modified its report on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

Issuer C – Information Technology

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**.

Description of the deficiencies identified

The firm identified control deficiencies in the issuer's sales process related to segregation of duties conflicts and individuals having inappropriate access to the issuer's revenue system that provided these users with the ability to create and modify customer accounts, enter sales orders, and record adjustments to accounts receivable. The firm identified and tested various compensating controls, including controls that the issuer implemented in response to these control deficiencies. The following audit deficiencies were identified:

- For the compensating controls, the firm did not evaluate the implications of certain control owners having segregation of duties conflicts and/or inappropriate access to the revenue system. (AS 2201.68)

- One of the controls that the issuer implemented consisted of the review of a report of all users who created or modified sales orders during the year. In testing this control, the firm did not evaluate the specific review procedures that the control owners performed to identify users with inappropriate access and assess whether the sales orders these users created or modified were appropriate. (AS 2201.68) In addition, the firm did not identify and test any controls over the accuracy and completeness of the report used in the operation of this control. (AS 2201.68)

In connection with our review, the issuer reevaluated its controls over segregation of duties and access to the revenue system and concluded that material weaknesses existed that had not been previously identified. The issuer subsequently revised its report on ICFR to reflect these material weaknesses, and the firm modified its opinion on the effectiveness of the issuer's ICFR to express an adverse opinion and reissued its report.

The sample size the firm used in certain of its substantive procedures to test revenue was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer D – Information Technology

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Stock Compensation**.

Description of the deficiency identified

During the audit, the firm did not identify that the issuer's recognition of compensation expense associated with certain equity awards that contained both service and performance conditions was not in conformity with FASB ASC Subtopic 718-10, *Compensation – Stock Compensation – Overall*. (AS 2810.30)

In connection with our review, the issuer reevaluated its accounting for compensation expense related to these equity awards and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently restated its financial statements, and the firm revised and reissued its report on the financial statements.

Audits with Multiple Deficiencies

Issuer E – Energy

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Derivatives**, **Revenue**, and **Oil and Gas Properties**.

Description of the deficiencies identified

With respect to **Derivatives** and **Revenue**:

The issuer was party to a contract with one of its customers that required the issuer to provide a minimum monthly volume of oil produced from a defined area within one of its properties. The issuer determined that the contract represented a derivative contract and qualified for the scope exception for normal purchases and normal sales under FASB ASC Topic 815, *Derivatives and Hedging*. The contract included a provision that allowed the issuer to defer any payments owed to the customer for any production below the minimum monthly volumes over the life of the contract ("volume payment") until the end of the contract. Subsequent to year end but prior to the issuer filing its financial statements, the issuer renegotiated certain terms of the contract and determined that these changes were enforceable as of year end.

With respect to the firm's control testing over and substantive procedures related to whether the contract qualified for the derivative accounting scope exception for normal purchases and normal sales, the following deficiencies were identified:

- The firm did not identify and test any controls over the issuer's evaluation of the changes to the terms of the contract and the potential implications on the issuer's accounting for the contract in accordance with FASB ASC Topic 815. (AS 2201.39)

- The firm did not identify and test any controls over the issuer's ongoing evaluation of whether its physical delivery of the contractually required volumes of oil to the customer would be probable. (AS 2201.39)
- The firm did not perform any substantive procedures to evaluate whether, considering the issuer's past production trends and expected future production, the minimum monthly volumes per the contract could reasonably be met. (AS 2301.08)
- The contract included a provision that required the issuer to make a partial payment if, at any time, the issuer's estimate of the volume payment at the end of the contract exceeded a certain amount. In the year under audit, the issuer's estimate of future forecasted production indicated that the volume payment would exceed this amount in the following year. The firm did not perform any substantive procedures to evaluate whether this potential partial volume payment would contradict the issuer's assertion that it was probable that the contract would not result in a net settlement. (AS 2810.03)
- The firm did not perform any substantive procedures to evaluate whether a change to certain terms of the contract that would allow the issuer to reduce any volume payment would be a form of net settlement. (AS 2301.08)
- The firm did not evaluate whether the issuer's determination of the contract-end date was appropriate and whether the issuer's physical delivery of the contractually required volumes of oil to the customer by this date would be probable. (AS 2301.08)

With respect to the firm's control testing over and substantive procedures related to the consideration of the contract terms and the implications of these terms on revenue recognition, the following deficiencies were identified:

- The firm selected for testing certain controls over the issuer's evaluation of contracts, including changes to existing contracts, for revenue recognition under FASB ASC Topic 606, *Revenue from Contracts with Customers*. The firm concluded that these controls were designed and operating effectively, but it did not identify that the issuer did not evaluate (1) the accounting implications of the changes to the terms of the contract and (2) whether the revenue derived from the contract included an element of variable consideration that may have required the issuer to constrain revenue and record a contract liability. (AS 2201.42 and .44)
- The firm did not perform any substantive procedures to test the forecasted production that the issuer used to determine the estimated volume payment. (AS 2501.11)
- The firm did not perform sufficient substantive procedures to evaluate the estimated volume payment at the end of the contract. Its procedures to test the forecasted production for the defined area were limited to (1) comparing the issuer's prior-year estimate of forecasted production for the overall property for the current year to the actual production and (2) comparing the forecasted production for the defined area to the total forecasted production for the overall property. (AS 2501.11)
- The firm did not evaluate the accounting implications of the changes to the contract terms on revenue recognition and, as a result, did not identify that (1) the issuer used an incorrect contract-end date to determine the estimated volume payment that it used to evaluate revenue recognition and (2) the revenue derived from the contract included an element of variable consideration that may have required the issuer to constrain revenue and record a contract liability under FASB ASC Topic 606. (AS 2810.30)

The issuer recorded oil revenue based on volumes produced from each well; the issuer's ownership interest in each well varied from well to well. The firm did not identify and test any controls over the accuracy of the volume data, by well, used to record revenue. (AS 2201.39)

The firm used the volume data in its substantive testing of this revenue but did not perform any procedures to test, or in the alternative, test any controls over, the accuracy of the data. (AS 1105.10)

With respect to **Oil and Gas Properties**:

During the year, the issuer identified indicators of possible impairment for two of its oil- and gas-producing properties. The issuer developed undiscounted cash flows for its impairment analysis using various assumptions that included (1) oil and gas reserves, including historical and forecasted production, (2) future development costs, and (3) product prices, including adjustments to those prices. The issuer engaged an external specialist to estimate the issuer's oil and gas reserves.

To test the forecasted production assumption, the firm compared the issuer's prior-year estimate of forecasted production for the current year to the actual production and investigated any variances. The firm did not perform sufficient substantive procedures to evaluate the reasonableness of the forecasted production for both properties because its procedures were limited to inquiring of management about the variances. (AS 2501.11)

The issuer held certain assets that it planned to use to develop one of these properties. The firm did not evaluate whether the issuer should have grouped these assets with this property's assets for its analysis of this property for possible impairment. (AS 2501.11)

The firm performed substantive analytical procedures to test the reasonableness of the future development costs for each of these two properties. The firm developed its expectations based on (1) historical development costs for one of these properties, (2) the number of wells drilled and completed during the year, and (3) the issuer's average ownership interest ("working interest") in the wells. These analytical procedures did not provide sufficient appropriate audit evidence because the following deficiencies were identified:

- The firm did not determine whether the historical development costs for one property could be expected to be predictive of the future development costs for both properties. (AS 2305.13 and .14)
- In testing the historical costs used to develop its expectations, the firm did not identify that certain costs should have been excluded from those expectations. (AS 2305.16) In addition, for one of these properties, the firm reduced the historical development costs based on an estimate of certain cost savings the issuer expected to achieve in future years. The firm did not perform any procedures, beyond inquiring of management, to test these expected cost savings. (AS 2305.16)
- The firm did not perform any procedures to test the accuracy of the number of wells drilled and completed during the year. (AS 2305.16)
- The firm did not identify that the working interest it used to develop its expectation for one of the issuer's properties was different than the working interest used by the issuer's specialist. (AS 2305.16)

The firm did not perform any procedures to test the accuracy and completeness of the development cost, production, and pricing data that the issuer provided to the external specialist and that the external specialist used to estimate the issuer's oil and gas reserves. (AS 1210.12)

The issuer used the forecasted production and future development costs to determine the depletion expense for these properties. As a result of the deficiencies in the firm's testing of this information as discussed above, the firm did not perform sufficient substantive procedures to test the issuer's depletion expense. (AS 2301.08)

Issuer F – Industrials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**.

Description of the deficiencies identified

For one of its business units, the issuer entered into revenue arrangements with multiple performance obligations and allocated the total transaction price for each arrangement to the separate performance obligations on a relative standalone selling price basis. The following deficiencies were identified:

- The firm did not identify and test any controls that addressed whether the issuer's allocation of revenue to separate performance obligations was based on relative standalone selling prices in conformity with FASB ASC Topic 606. (AS 2201.39)
- For certain revenue recorded from these arrangements, the firm did not identify and test any controls that addressed whether the individual prices for goods sold were agreed to by customers prior to recording revenue under FASB ASC Topic 606. (AS 2201.39) In addition, for certain of these revenue transactions, the firm did not identify and test any controls that addressed whether the quantities shipped and invoiced by the issuer represented quantities ordered by customers. (AS 2201.39)
- For certain other revenue recorded from these arrangements, the firm did not identify and test any controls that addressed whether certain of these revenue transactions were valid and accurate. (AS 2201.39)
- The firm did not perform any substantive procedures to evaluate whether the issuer's allocation of revenue to separate performance obligations was based on relative standalone selling prices in conformity with FASB ASC Topic 606. (AS 2810.30)

For another business unit, the firm did not identify and test any controls that addressed whether the (1) quantities shipped and invoiced by the issuer represented quantities ordered by customers and (2) prices were agreed to by customers prior to recording revenue. (AS 2201.39)

The firm selected for testing a control that consisted of the issuer's review and approval of changes to the prices maintained in the pricing master file. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls that addressed whether all approved price changes were made to the pricing master file. (AS 2201.39)

For a third business unit, the firm identified control deficiencies related to the issuer's controls over the review and approval of sales orders and changes to prices maintained in the pricing master file. The firm identified and tested various controls that it believed would mitigate these deficiencies. The firm did not identify that these compensating controls did not address the risks of material misstatement related to fictitious sales orders and inaccurate prices. (AS 2201.68)

The sample size the firm used in certain of its substantive procedures to test revenue at two of these business units was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer G – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**, **Accounts Receivable**, and **Income Taxes**.

Description of the deficiencies identified

With respect to **Revenue**:

For revenue from fixed-price contracts, the firm performed substantive procedures to test a portion of this revenue but did not perform any procedures to test the remaining portion. (AS 2301.08)

For revenue from completed contracts, the firm designed one of its substantive procedures as a dual-purpose test. The firm performed its substantive procedure using the same sample size it determined for its control testing. This sample size was too small to provide sufficient appropriate audit evidence for the substantive procedure because the firm did not use the larger of the samples that would otherwise have been designed for the two separate purposes. (AS 2315.44)

With respect to **Accounts Receivable**:

To test certain accounts receivable, the firm performed confirmation procedures for all invoices that exceeded a monetary threshold. For the items for which the requested confirmations were not returned, the firm did not perform alternative procedures that provided sufficient appropriate audit evidence that these invoices represented valid receivables at year end. (AS 2310.31)

For these accounts receivable that were not subject to confirmation procedures, the firm performed substantive procedures for a nonstatistical sample of invoices. For certain items in its sample, the firm did not perform procedures that provided sufficient appropriate audit evidence that these invoices represented valid receivables at year end. (AS 2301.08)

With respect to **Income Taxes**:

The firm selected for testing a control that included the issuer's review of the valuation allowance for its deferred tax assets related to its domestic and foreign operations. The firm did not evaluate the specific review procedures that the control owners performed to evaluate the evidence the issuer used to determine whether a valuation allowance was necessary. (AS 2201.42 and .44)

The firm selected for testing controls that consisted of the issuer's preparation and review of its tax provision, including the control discussed above. The firm did not test the aspects of these controls that addressed the income tax expense and deferred taxes recorded for the issuer's foreign operations other than the aspect related to the valuation allowance as discussed above. (AS 2201.42 and .44)

The firm did not perform sufficient substantive procedures to test the income tax expense and deferred taxes recorded for the issuer's foreign operations because the firm's procedures were limited to comparing balances from the tax provision to supporting documentation for only a small number of deferred tax assets and for only two of the issuer's foreign subsidiaries. (AS 2301.08)

For one of its foreign subsidiaries, the issuer reported a full valuation allowance related to certain deferred tax assets. The firm concluded that the valuation allowance was appropriate without evaluating certain evidence that suggested that a valuation allowance may not be necessary. (AS 2501.11; AS 2810.03)

Issuer H – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Income Taxes**.

Description of the deficiencies identified

With respect to **Revenue** and **Income Taxes**:

The firm identified a control deficiency related to inappropriate access for numerous users to the issuer's IT system that was used to process and record transactions related to revenue and income taxes. The firm did not sufficiently evaluate the severity of this control deficiency because it limited its evaluation to inspecting activity logs of the users that had inappropriate access. (AS 2201.62) In addition, the firm identified and tested various controls that it believed would mitigate this deficiency. The firm did not identify that these compensating controls did not address the risks related to inappropriate access for these users. (AS 2201.68)

With respect to **Income Taxes**:

During the year, the issuer completed a restructuring of its foreign subsidiaries. The following deficiencies were identified:

- The firm did not identify and test any controls over the issuer's evaluation of the tax considerations related to this restructuring. (AS 2201.39)
- The firm did not perform any substantive procedures to evaluate the issuer's conclusions related to the tax effects of the restructuring, beyond reading a document the issuer's external specialist prepared that summarized the nature of the restructuring and the issuer's conclusions on the related tax considerations. (AS 2301.08)

The issuer reported an income tax benefit from tax exemptions that a foreign tax authority granted the issuer. These exemptions were subject to compliance with certain conditions. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the review of an analysis that the issuer used to determine whether it met those conditions. The firm did not evaluate the specific review procedures that the control owner performed to assess the issuer's compliance with those conditions. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain information in the issuer's analysis that the control owner used in the operation of this control. (AS 2201.39)
- The firm did not perform any substantive procedures to evaluate the issuer's compliance with those conditions. (AS 2301.08)

Issuer I – Industrials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Income Taxes**.

Description of the deficiencies identified

With respect to the issuer's transfer pricing related to intercompany transactions, the following deficiencies were identified:

- The firm selected for testing a control over the issuer's monitoring of compliance with its transfer pricing methodology, including the review of whether all transactions introducing transfer-pricing risk had been identified for evaluation. The firm did not evaluate the specific review procedures that the control owner performed to (1) determine whether the issuer identified a complete population of transactions with potential transfer-pricing implications for review and (2) assess the issuer's compliance with its transfer-pricing methodology for the transactions that were identified, including the control owner's review of intercompany margins. (AS 2201.42 and .44)
- The firm did not perform any substantive procedures to assess the issuer's compliance with its transfer-pricing methodology for intercompany transactions. (AS 2301.08)

With respect to the issuer's uncertain tax positions, the firm did not identify and test any controls over the issuer's evaluation of (1) the unit of account that it used to determine individual tax positions and (2) the assumptions used to evaluate whether its uncertain tax positions met the recognition threshold. (AS 2201.39)

With respect to the issuer's disclosures related to its permanent reinvestment of foreign earnings, the following deficiencies were identified:

- The firm selected for testing a control that included the issuer's review of its disclosures related to these earnings. The firm did not evaluate the specific review procedures that the control owner performed to evaluate the potential effects of the changes in federal tax laws on the issuer's disclosures. (AS 2201.42 and .44)

- The firm did not perform any substantive procedures to evaluate the potential effects of the changes in federal tax laws on the issuer's disclosures related to its permanent reinvestment of foreign earnings. (AS 2301.08)

Issuer J – Information Technology

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Income Taxes**.

Description of the deficiencies identified

During the year, certain changes in federal tax laws affected the issuer's determination of its state and local taxes. The firm did not identify and test any controls over the issuer's evaluation of the effects of these changes on its state and local taxes. (AS 2201.39)

The firm did not perform any substantive procedures to evaluate the effects of the changes in federal tax laws on the issuer's state and local taxes. (AS 2301.08)

The firm did not identify and test any controls that addressed whether the issuer's calculations of certain limitations on deductions used to determine income tax expense were appropriate. Further, the firm did not identify and test any controls over the issuer's evaluation of the base erosion and anti-abuse tax ("BEAT"). (AS 2201.39)

The firm did not perform any substantive procedures to (1) test the adjusted taxable income amount that the issuer used to determine its business interest deduction and (2) evaluate the issuer's assertion that it did not meet the requirements to calculate and record a BEAT. (AS 2301.08)

The issuer reported an income tax benefit from tax exemptions that a foreign tax authority granted the issuer. These exemptions were subject to compliance with certain conditions. The firm did not identify and test any controls that addressed whether the issuer met those conditions. (AS 2201.39)

Issuer K – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the ICFR audit related to **Investments** and the **ALL**.

Description of the deficiencies identified

With respect to **Investments**:

The issuer recorded the fair value of its available-for-sale ("AFS") securities based on prices it obtained from an external pricing service. The firm selected for testing various controls over the valuation of these securities that included the issuer's comparison of these prices to prices obtained from another external pricing service. The securities and prices obtained from both pricing services were manually entered by the issuer into a spreadsheet for this comparison. The firm did not test the aspects of these controls that addressed whether the prices the issuer used in this comparison were derived from different sources. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy of the prices that were manually entered into the comparison spreadsheet. (AS 2201.39)

The firm did not identify and test any controls over the issuer's determination of the categorization of its AFS securities within the fair value hierarchy as set forth in FASB ASC Topic 820. (AS 2201.39)

With respect to the **ALL**:

The issuer used a credit risk-rating model to determine (1) a risk-rating score for each loan and (2) the general reserve component of the ALL using the risk-rating scores as important inputs. The firm selected for testing controls that consisted of the issuer's reviews of the outputs from this model. The firm did not evaluate the specific review procedures that the control owners performed to evaluate the appropriateness of the risk-rating scores and the reasonableness of the general reserve. (AS 2201.42 and .44)

Issuer L – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Accounts Receivable**.

Description of the deficiencies identified

The issuer used two IT systems to process and record transactions related to revenue and certain accounts receivable. The following deficiencies were identified:

- The firm selected for testing various controls over program change management for these IT systems but did not perform any procedures to test the completeness of the population of changes obtained from the issuer from which it made its selections for testing. (AS 1105.10)
- The firm selected for testing various controls over the issuer's review of user access to these IT systems but did not evaluate the specific procedures that the control owners performed to determine whether to grant access to users or whether the granted access continued to be appropriate. (AS 2201.42 and .44)
- The firm tested certain automated controls that used data maintained by one of these IT systems. The accuracy and completeness of these data depended on effective IT general controls ("ITGCs"). Due to the deficiencies in the firm's testing of the ITGCs discussed above, the firm's testing of these automated controls was not sufficient. (AS 2201.46)

The sample sizes the firm used in certain of its substantive procedures to test revenue and these accounts receivable were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer M – Health Care

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**.

Description of the deficiencies identified

For certain revenue, the issuer entered information related to the types and quantities of services provided into a source system; this information was transferred from the source system to the issuer's revenue system to record revenue. The firm did not identify and test any controls over the accuracy and completeness of this information. (AS 2201.39)

The firm tested a control that consisted of a quarterly comparison of financial results, including this revenue, to the results of the prior quarter. The firm did not sufficiently test controls over the accuracy and completeness of certain data used in the operation of this control because it did not test an aspect of another control that addressed the accuracy and completeness of these data. (AS 2201.42 and .44)

The sample size the firm used in certain of its substantive procedures to test this revenue was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer N – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the ICFR audit related to the **ALL**.

Description of the deficiencies identified

The issuer used models to determine the general reserve component of the ALL for commercial loans collectively evaluated for impairment. These models used various data, including a loan risk rating for each loan, that were derived from the issuer's data warehouse system. The loan risk rating was an important input in estimating the ALL and determining whether a loan would be individually or collectively evaluated for impairment. The following deficiencies were identified:

- The firm used only the work of the issuer's internal audit as evidence about the effectiveness of certain controls related to the issuer's reviews of the loan risk ratings. This approach did not provide sufficient appropriate audit evidence that these controls were designed and operating effectively because of the amount of subjectivity and judgment involved in evaluating the appropriateness of the loan risk ratings and determining any changes to these ratings. (AS 2201.19; AS 2605.20 and .21)
- The issuer identified a deficiency related to one of the loan risk-rating controls discussed above. The firm identified and tested certain controls that it believed would mitigate this deficiency. The firm did not identify that these compensating controls did not address the risks of material misstatement related to inappropriate loan risk ratings. (AS 2201.68)
- The firm did not identify and test any controls over the accuracy of the transfer of the loan risk ratings from the issuer's source systems to the data warehouse system, or test other controls that would have provided evidence over the accuracy of the loan risk ratings in the data warehouse system. (AS 2201.39)

Issuer O – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Investments** and **Derivatives**.

Description of the deficiencies identified

The firm did not identify and test any controls over the observability of the pricing inputs, at the individual instrument level, that the issuer used to determine the categorization of its investments and derivatives within the fair value hierarchy as set forth in FASB ASC Topic 820. (AS 2201.39)

The firm performed substantive procedures to evaluate the categorization of the issuer's available-for-sale securities within the fair value hierarchy and to test the valuation of these securities. The firm did not evaluate evidence obtained through these procedures that may have suggested that certain securities categorized as level 2 within the fair value hierarchy lacked observable market data. (AS 2502.43; AS 2810.03)

Issuer P – Industrials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Inventory**.

Description of the deficiencies identified

The firm selected for testing various automated application controls that the issuer used to process and record transactions related to inventory held at certain locations. The firm's testing did not provide sufficient appropriate audit evidence about the operating effectiveness of these controls during the year and as of year end because the firm performed the majority of its procedures on the automated application controls that were in place after year end without performing procedures, beyond inquiring of management, to determine that there were no changes to these controls or the issuer's IT systems between year end and the testing date. (AS 2201.44)

The sample sizes the firm used in certain of its substantive procedures to test this inventory were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiency in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer Q – Energy

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Accounts Receivable**, and **Inventory**.

Description of the deficiencies identified

The firm did not perform any substantive procedures to address the assessed risks of material misstatement related to revenue, accounts receivable, and inventory for several of the issuer's business units. (AS 2301.08) In addition, for another business unit, the firm did not perform any procedures to address an identified fraud risk related to revenue cut-off. (AS 2301.13)

Audits with a Single Deficiency

Issuer R – Health Care

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**.

Description of the deficiency identified

To test the occurrence of revenue throughout the year at certain of the issuer's business units, the firm's procedures included testing revenue transactions based on a nonstatistical sampling approach that was designed assuming a certain level of substantive evidence the firm planned to obtain from its other substantive procedures. These other substantive procedures did not provide the planned level of substantive evidence to address the risks of material misstatement related to the occurrence of this revenue because these procedures, which included confirming accounts receivable at year end, performing cut-off testing at year end, and testing credit memoranda after year end, were primarily focused on the occurrence of revenue at a point in time. As a result, the nonstatistical samples were too small to provide sufficient appropriate audit evidence to address the risks of material misstatement related to occurrence of this revenue throughout the year. (AS 2301.37 and .42; AS 2315.19, .23, and .23A)

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not otherwise selected for review and may include instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In four of 16 audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to the names, locations, and planned responsibilities of other independent public accounting firms that performed audit procedures in the current period audit. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In seven of 32 audits reviewed, the firm's report on Form AP either contained inaccurate information or omitted information related to the participation in the audit by certain other accounting firms. In one audit reviewed and in three other audits, the firm did not file its report on Form AP by the relevant deadline. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

- In one of 12 audits reviewed, the firm's required written communications to the audit committee were insufficient as the firm did not include a description of the nature and scope of certain tax services to the audit committee. In this instance, the firm was non-compliant with PCAOB Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*.

- In one of 12 audits reviewed, the firm did not describe in writing to the audit committee all relationships that, as of the date of the firm's communication, may have been thought to bear on the independence of the firm. In this instance, the firm was non-compliant with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

Part II: Observations Related To Quality Control

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

Deficiencies are included in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, any such deficiency will be made public.

* * * *

Policies for Financial Holdings Disclosures

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm and its personnel will comply with the firm's policies and procedures with respect to independence-related regulatory requirements. (QC 20.04, .09, and .10)

The firm conducts periodic audits of a sample of its personnel to monitor compliance with certain of its independence policies. In the audits conducted during the twelve-month period ended June 30, 2019, the firm identified that 24 percent of the managers who were audited had not reported financial relationships that were required to be reported in accordance with the firm's policies. This high rate of non-compliance with the firm's policies, which are designed to provide compliance with applicable independence regulatory requirements, provides cause for concern, especially considering that these individuals are required to certify on an annual basis that they have complied with the firm's independence policies and procedures.

* * * *

Appendix A: Firm's Response to the Draft Inspection Report

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

pwc

December 1, 2020

Mr. George Botic, Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006

Re: Response to Draft Report on the 2019 Inspection of PricewaterhouseCoopers LLP

Dear Mr. Botic:

On behalf of PricewaterhouseCoopers LLP (the "Firm"), we are pleased to provide our response to the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") Draft Report on the 2019 Inspection of our Firm's 2018 audits (the "Report"). We recognize the inspection process provides a valuable opportunity to improve the quality of our audits. We continue to support the PCAOB in its mission and are committed to furthering the public interest through the preparation of informative, accurate and independent audit reports.

Bringing value to the capital markets by consistently performing quality audits remains our top priority, including addressing the matters raised in the Report in a thorough and thoughtful way. We have evaluated each of the observations set forth in *Part I - Inspection Observations* and have taken appropriate responsive actions. Our response included those steps we considered necessary to comply with AS 2901, *Consideration of Omitted Procedures After the Report Date,* and where applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* and AS No. 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated With An Audit of Financial Statements*.

We appreciate that many of our stakeholders will review the PCAOB's report and this response. We wanted to therefore take the opportunity to provide a link to our 2020 Audit Quality Report and our most recent mid-year update to encourage our stakeholders to learn more about our system of quality control and how we delivered on our audit quality objectives over the past year (http://www.pwc.com/us/auditquality). Our 2020 Audit Quality Report addresses how we: maintain a sustained focus on integrity and independence; invest in enhancements to relevant methodology, technologies, and training; and embrace diversity and inclusion as an essential aspect of our purpose, culture, and values. It also describes how our ability to be agile, virtual, and ready to handle the unexpected made it possible to quickly pivot and respond to the challenges presented by the COVID-19 crisis. Our mid-year update provides timely information regarding our continued response to COVID-19 and the activities of our new Audit Quality Advisory Committee.

We look forward to continuing our dialogue with the PCAOB and would be pleased to discuss any aspects of this response or any other questions you may have.

Sincerely,

Tim Ryan	Wes Bricker
US Chairman and Senior Partner	US Vice Chair - Assurance Leader
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